



*State of New Jersey*  
Board of Public Utilities  
Two Gateway Center  
Newark, New Jersey 07102

ENERGY

I/M/O THE PETITION OF PUBLIC  
SERVICE ELECTRIC AND GAS  
COMPANY FOR AUTHORITY TO REVISE  
ITS GAS PROPERTY DEPRECIATION  
RATES )

ORDER ADOPTING  
INITIAL DECISION  
APPROVING STIPULATION

and

I/M/O THE PETITION OF PUBLIC  
SERVICE ELECTRIC AND GAS  
COMPANY FOR APPROVAL OF AN  
INCREASE IN GAS RATES AND FOR  
CHANGES IN THE TARIFF FOR GAS  
SERVICE B.P.U.N.J. NO. 12, GAS  
PURSUANT TO N.J.S.A. 48:2-21  
AND N.J.S.A. 48:2-21.1 )

BPU DOCKET NO. GR01050297  
OAL DOCKET NO. PUC-0516-01N  
  
BPU DOCKET NO. GR01050328  
OAL DOCKET NO. PUC-05052-01N

(SERVICE LIST ATTACHED)

BY THE BOARD:

On May 4, 2001, Public Service Electric and Gas Company ("PSE&G", "Petitioner" or "Company") filed a petition with the New Jersey Board of Public Utilities ("Board" or "BPU") pursuant to N.J.S.A. 48:2-18, for approval to change its gas depreciation rates and associated gas revenue requirements ("Depreciation Petition").

On May 25, 2001, PSE&G filed a petition with the Board requesting permission to increase its tariff rates for gas service pursuant to N.J.S.A. 48:2-21 and N.J.A.C. 14:1-5.12 ("Rate Case Petition"). The requested increase represented an overall revenue increase of approximately \$171 million or 7.06% above test year present gas rate revenues. The Rate Case Petition included a proposed rate of return on equity of 12%.

The Company's Rate Case Petition was based upon a test year ending June 30, 2001 that included 6 months of actual results (June 1 – Dec. 31, 2000) and 6 months of estimated results (Jan. 1 – June 30, 2001).

The major components of the request were as follows:

- Proposed rate base: \$1,675,228,000
- Proposed rate of return: 9.05%
  - 1. Income requirement \$ 151,608,000
  - 2. Pro-forma income, at present rates \$ 49,747,000
  - 3. Income deficiency: \$ 101,861,000
  - 4. Revenue factor: 1.6940
  - 5. Revenue requirement: \$ 172,553,000
  - 6. Net increase in gas rates as follows: \$ 171,192,000
    - a. Increased rate base \$ 59 million
    - b. Depreciation rate changes-gas plant \$ 67 million
- Proposed percentage increases, by customer class, were as follows:
  - 1. RSG (residential service gas) 10.96%
  - 2. GSG (general service gas) 6.07%
  - 3. LVG (large volume gas) 2.41%
  - 4. SLG (street lighting gas) 11.70%
  - 5. TSG-F (transportation service gas-firm) 1.67%
  - 6. TSG-NF (transportation service gas-non firm) 1.02%
  - 7. CIG (cogeneration interruptible gas) 2.31%

On May 30, 2001, the Rate Case Petition was transmitted to the Office of Administrative Law ("OAL") as a contested matter and the matter was subsequently assigned to Administrative Law Judge ("ALJ") William J. Gural.

A pre-hearing conference was conducted on June 27, 2001, at which time ALJ Gural established the plenary hearing and discovery schedule. The ALJ also ruled that the Company's Depreciation Petition would be consolidated with and heard simultaneously with the Rate Case Petition.

By Order dated June 20, 2001, the Board suspended the proposed increase and tariff revisions until October 25, 2001. By subsequent Order dated October 25, 2001, the Board further suspended the proposed rate increase until February 25, 2002.

Parties to the case included PSE&G, the Division of Ratepayer Advocate ("Ratepayer Advocate") and Board Staff. Motions for Intervention were filed by North Jersey Energy Associates ("NJEA") on July 23, 2001, Shell Energy Services ("Shell") on July 5, 2001, Enron Corporation ("Enron") on September 7, 2001, and Stony Brook Sewage Authority ("Stony Brook") on September 28, 2001. ALJ Gural granted the motion of NJEA and denied intervenor status for the other movants. However, the ALJ granted Shell, Enron and Stony Brook participant status, pursuant to N.J.A.C. 17:27-16.6, including the right to file a brief or written statement. Enron filed an interlocutory appeal from ALJ Gural's decision with the Board. The Board denied Enron's request to overturn the ALJ's denial of Enron's motion for intervention by Order dated October 4, 2001 but permitted Enron the opportunity to file

exceptions and reply exceptions to the Board. Stony Brook filed a motion with ALJ Gural for reconsideration of his decision denying Stony Brook's motion for intervention. ALJ Gural denied that motion for reconsideration on October 9, 2001.

On July 24, 2001, South Jersey Gas Company filed a motion for participant status. On October 29, 2001, the Utility Co-Workers Association filed a motion for participant status. ALJ Gural granted both of these motions for participant status.

Discovery involving over 500 requests for information was propounded on and responded to by the Company. Direct, rebuttal and surrebuttal testimony was filed by the Company, the Ratepayer Advocate and NJEA.

On August 31, 2001, the Company updated its original request based to reflecting 12 months actual test year data. Pursuant to that update, the Company modified its base rate increase request to approximately \$161.8 million, of which the requested change in depreciation rates comprised approximately \$64 million. In its revised testimony, Exhibit P-2, R-2, the Company further reduced its request to \$160.8 million.

Evidentiary hearings commenced on September 20, 2001 and were completed on October 5, 2001. The Company presented nine witnesses in support of its petition. The Ratepayer Advocate presented five witnesses in opposition to the Company's request. The Ratepayer Advocate recommended that the Company's petition be denied and proposed that PSE&G's gas base rates be decreased.

Public hearings were conducted on October 9, 2001, October 10, 2001, November 5, 2001 and November 7, 2001 in Hackensack, New Brunswick, Mt. Holly and Mercerville, respectively.

The parties filed Initial Briefs on November 2, 2001 and Reply Briefs on November 16, 2001.

Settlement conferences among the parties were conducted. As a result of those settlement conferences, PSE&G, the Division of the Ratepayer Advocate, NJEA, and Board Staff ("the Stipulating Parties") entered into a Stipulation dated December 26, 2001 ("Stipulation"). The proposed Stipulation addresses and resolves both the Base Rate Case Petition and the Depreciation Petition.

On December 26, 2001, ALJ Gural issued his Initial Decision to the Board approving the Stipulation, concluding that the settlement meets the requirements of N.J.A.C. 1:1-19.1 and that the settlement should be approved.

By letter dated December 21, 2001, Stony Brook withdrew from this proceeding.

By letter dated January 4, 2001, Enron indicated that it did not oppose the Stipulation in this matter, and further indicated that it would not file exceptions or reply exceptions to the Board opposing the terms of the Stipulation.

#### Proposed Stipulation

The Stipulation provides for an increase of \$90 million. This increase incorporates an overall rate of return for the Company of 8.27% on a rate base of \$1.630 billion and a rate of return on equity of 10%. Approval of the proposed Stipulation would increase the annual bill of an

average residential customer who uses 1,252 therms per year from \$1,221.91 to \$1,286.13, an increase of \$64.22 or 5.2 percent.

Key provisions of the Stipulation included the following:

The Stipulating Parties have agreed that :

1. Gas base revenues should be increased by \$90 million, effective for service rendered on and after January 9, 2002. This \$90 million includes \$8 million of depreciation related rate increases.

The Stipulating Parties have further agreed to the following component calculations in support of the proposed revenue increase:

	<u>Dollars in Thousands</u>
• Rate Base:	\$1,630,000
• Rate of Return:	8.27%
• Utility Operating Income Requirement	\$ 134,801
• Utility Operating Income Test Year	\$ 81,672
• Income Deficiency	\$ 53,129
• Revenue Factor	1.694
• Rate Increase	\$ 90,000
2. The Stipulating Parties have agreed that the appropriate Cost of Equity for this Stipulation is 10%.	
3. The resulting average percentage increases, by customer class, are as follows:	
RSG (residential service gas)	5.75%
GSG (general service gas)	2.84%
LVG (large volume gas)	1.14%
SLG (street lighting gas)	5.97%
TSG-F (transportation service gas-firm)	0.90 %
TSG-NF (transportation service gas-non firm)	0.73%
CIG (cogeneration Interruptible gas)	1.21%
Overall Increase - All Classes	3.46%

The monthly Residential Service Charge for rate schedule RSG will continue at its present level of \$5.79. The Customer Reconnection Charge will remain at its current level of \$20.00. The resulting interclass revenue increase allocation and agreed upon Rate RSG Service Charge will then be the basis for the rate design.

4. The Stipulating Parties have agreed that the Company's proposal to implement a Margin Adjustment Clause ("MAC") should be adopted subject to the following modification. The Company's proposal to retain certain margins associated with certain specific TSG-NF customers, as detailed in Mr. Schirra's direct testimony, should be adopted with the modification proposed by the Ratepayer Advocate that the margin treatment for customers switching from LVG to TSG-NF be reciprocal for

customers switching from TSG-NF to LVG. Further, the Stipulating Parties have agreed that the Field Collection Charge, presently in both the Electric and Gas Tariffs, should be addressed in the Company's next electric base case and the resulting changes, if any, be applied to both the Electric and Gas Tariffs at that time.

5. The Stipulating Parties have further agreed that the Tariff for Gas Service, provided as Schedule 2 in the Company's Rate Case Petition and as referenced in paragraph 8 below, assume that the Gas Contract Transfer proposed in Docket No. GM00080564 has been approved and the necessary tariff changes have been implemented. Until such time as such tariff changes are implemented, the provisional tariff sheets provided as Exhibit P-7, R-1, Schedule GWS-21, R-1 and Exhibit P-34, should be effective.
6. The Stipulating Parties have further agreed that:
  - a. The Company's proposal to adopt a minimum term requirement for residential gas customers returning to BGSS will not be adopted. The current Board-approved minimum term requirements for gas customers returning to BGSS will remain unchanged. The Ratepayer Advocate reserves the right to challenge the existing term requirements in any future proceeding in which the Board addresses the structure, pricing or other terms of BGSS;
  - b. The Company's proposal to include uncollectible expenses in its gas Societal Benefits Charge ("SBC") will not be implemented at this time;
  - c. The Company's proposal to increase the Third Party Supplier ("TPS") security deposit from \$70 per Dth to \$140 per Dth will not be implemented at this time; and
  - d. The Company's proposal to offer interval meters in section 8.5.2 of the proposed gas tariff, will not be implemented at this time.
7. The stipulated additional gas base revenues of \$90 million agreed to as part of the Stipulation will remain unchanged irrespective of the Board's disposition of the Company's Gas Contract Transfer proceeding under Docket No. GM00080564. The parties reserve their rights to maintain their respective positions in that proceeding.
8. The Board should adopt the Tariff for Gas Service shown as Schedule 2 in the Company's Rate Case Petition, as modified to reflect the Stipulation. The Company agrees to submit to the Ratepayer Advocate and the BPU Staff on or before December 28, 2001 a revised tariff, along with the rate design and the proof of revenues, which will reflect the agreements in the Stipulation.
9. The Company will not file another gas base rate case resulting in any further gas base rate increase prior to September 1, 2004.

#### Discussion and Findings

The Board having reviewed the attached Stipulation signed by PSE&G, the Division of the Ratepayer Advocate, NJEA and Board Staff as well as the Initial Decision of ALJ Gural, is

satisfied that the Stipulation, which is fully supported by the extensive record developed in this case, represents a fair and reasonable resolution of the complex issues and is in the public interest. The Stipulation will provide the Company with additional revenues in order to permit it to meet its statutory obligations to continue to operate and maintain its gas distribution system for the benefit of its gas customers in a safe, adequate, and reliable manner. The Board further finds that the proposed Stipulation is the result of intense arms-length negotiations among the parties and is responsive to and balances the respective needs of both the utility and its customers to manage gas rates and ensure distribution system reliability. Accordingly, the Board HEREBY ADOPTS the attached Stipulation and the Initial Decision as its own, and incorporates their provisions herein, as if they were fully set forth herein.

Approval of the Stipulation and related tariff design shall not affect or limit the Board's statutory authority in any future Public Service Electric and Gas Company proceeding.

On December 26, 2001, the Company submitted a proposed marked-up draft of the tariff as originally shown on Schedule 2 in the Company's Petition, modified to conform to the terms of the Stipulation. As part of the December 26, 2001 submission, the Company also included a proof of revenues based upon the terms of the Stipulation. The Board has reviewed these tariff pages and proof of revenues and HEREBY FINDS them to be consistent with the terms of the Stipulation. The Board HEREBY ORDERS PSE&G to submit final compliance tariff pages no later than one week after the date of this Order. Said tariff pages shall be effective for service rendered on and after the date of this Order.

DATED: JANUARY 9, 2002

BOARD OF PUBLIC UTILITIES

BY:

(SIGNED)

CONNIE O. HUGHES  
PRESIDENT

(SIGNED)  
FREDRICK F. BUTLER  
COMMISSIONER

(SIGNED)  
CAROL J. MURPHY  
COMMISSIONER

ATTEST:

(SIGNED)  
HENRY M. OGDEN  
ACTING BOARD SECRETARY

